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A16z MakerDAO Tokenomics Proposal Three: Increasing Financial Resiliency and Fostering Growth

Governance Proposal Ideas ■ longform ■ tokenomics ■ a16z-tokenomics-series



Porter Smith

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Increasing Financial Resiliency and Fostering Growth within MakerDAO

Proposal Three: Increasing the System 66 Quote ffer, to begin aligning it to calculated, vaultspecific, expected losses related to credit and liquidation risk, as the primary insurance pool for MakerDAO.

Dictating the size of the Surplus Buffer is fundamentally a capital allocation question. How much money should MakerDAO keep as a buffer to protect against "known unknowns;" how much can be put to work by compensating contributors for operational and strategic initiatives; how much should be distributed to token holders, and if any, through what distribution channels?

@krzkaczor elegantly outlined 8 why MakerDAO should focus on aggressive growth with retained earnings; capital is hard to come by and should be used most efficiently to achieve more long-term earnings. Given the start-up nature of MakerDAO and its incredible potential, capital could be reinvested in ways to improve Maker's profitability and sustainability as it grows.

To this end, MakerDAO could keep the Surplus Buffer at \$250M while the community decides on those capital allocation routes and finalizes metrics that determine its size. The Surplus Buffer could be determined based on conservative estimates of potential shortfalls and other sources of capital outflows, perhaps using a formula that involves total capital at risk plus core operational costs and potential tax exposure (as suggested by @Aes), instead of arbitrary amounts.

Last, MakerDAO could establish a set of community principles governing retained earnings. How could they be spent to maximize growth? How can they incentivize MKR holders to provide valuable services to the protocol? Could Core Unit budgets be programmatically proportioned against these earnings?

The System Surplus Buffer is currently acting as a general catch-call for funds. It could be targeted for more specific uses (i.e. as an insurance pool), with other capital pools dedicated to other use cases for transparency and auditability.

As a final note, the thoughtful recent proposal 12 by @hexonaut, @nadia, and @krzkaczor to better capitalize MakerDAO for growth purposes could be incorporated as part of a new overall strategy for the System Surplus Buffer, combining different approaches suggested by community members.

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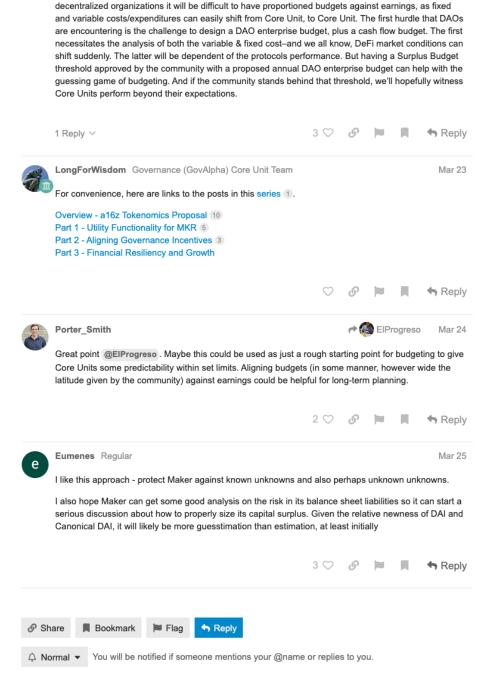
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Could Core Unit budgets be programmatically proportioned against these earnings?

Really liking this financial resilient proposal. With regards to CU budgeting, I think currently for

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